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SUBJECT: SECRETARY BODMAN'S MEETING WITH PRESIDENT ALIYEV

Classified By: Ambassador Anne E. Derse, Reasons 1.4 b and d.

11. (C) Summary. Secretary Bodman, accompanied by Ambassador and DAS Matthew Bryza, met Azerbaijani President Ilham Aliyev on November 12 in Baku before the opening of the Baku Energy Summit. During or in the weeks following the Summit, Azerbaijan intends to sign a memorandum of intent with Turkey on gas transit, conclude a long-term gas supply agreement with Georgia, and sign a joint oil transport agreement with Kazakhstan. Aliyev also told the Secretary that he intends to travel soon to Ashgabat for talks with President Berdimuhamedov. Aliyev believes that the prospects for the Nabucco project have improved since their low point after the Georgia war, but asked for sustained, senior diplomatic engagement by the United States, and for assistance in convincing BP to supply greater gas volumes (associated gas) for export. Aliyev also responded very favorably to the possibility of deepening Azerbaijan's security relationship with the United States. End Summary

12. (U) Secretary Bodman began the meeting by congratulating Aliyev on his victory in the October elections. He remarked on the transformation in Baku since his last visit for the opening of BTC in 2005. At that meeting Aliyev told the Secretary that the income from exports via BTC would be put to good use, and the Secretary told the President "...you've done what you said you would do." Secretary Bodman also conveyed thanks from President Bush for Azerbaijan's support to Georgia in the wake of the Russian invasion, for Azerbaijan's support to operations in Afghanistan and Iraq, and President Bush's strong support for the Southern Corridor.

13. (U) Aliyev thanked the Secretary for his visit and also for President Bush's letter of congratulations after the election. He told the Secretary he was pleased that the Baku Energy Summit would address a broad agenda and that all of the Nabucco countries were in attendance, as well as the European Commission, Kazakhstan and Turkmenistan.

Kazakhstan and Turkmenistan

14. (C) Aliyev emphasized the importance of the east Caspian, noting first that Azerbaijan was in "deep discussions" with the GOK on an oil transport agreement that would enable the provision of larger volumes) perhaps 10-20 million tons per year) of Kazakh oil to BTC. He also said he would visit Ashgabat much sooner than previously planned because "I cannot afford a break or delay in relations with the East Caspian." The Turkmen and Kazakhs, he said, want to keep a low profile to minimize Russian pressure on their decision-making.

15. (C) Azerbaijan is making a serious effort to cement Turkmenistan's commitment to westbound exports. According to

Aliyev, there is agreement in principle on supplies from Turkmenistan to Turkey, there having been a verbal agreement on this during PM Erdogan's visit, but he has advised the Turks to seal the agreement by agreeing to buy Turkmen gas at the border and conclude a written agreement. The main reason for moving up his trip to Ashgabat is to try to facilitate this. Turkey needs to move quickly to assure their supplies before 2011 when their gas supply contract with Russia expires.

Georgia

16. (C) The President's message on Georgia was clear and positive. Azerbaijan is very close to signing a 5-10 year gas supply agreement with Georgia and will continue to sell to Georgia at a discount. Azerbaijan will lose money in the process, he said, but will make the deal regardless, even as oil prices fall. "Not everything is about money," Aliyev said, noting that Georgia's only other option would be to buy gas "from an occupier." The President further noted that Azerbaijan will not abandon its investments in Georgia. Other countries, such as Kazakhstan, might be pulling out, he said, but Azerbaijan would increase its investments. (Note: The Azerbaijani state oil company (SOCAR) is the largest investor)and taxpayer - in Georgia, and reportedly is in negotiations with Tbilisi to take a stake or buy outright the Georgian gas distribution network. End Note.)

Turkey/Nabucco/Europe

17. (C) The main issue now is to secure a transit agreement with Turkey, the President said. He expected to sign a memorandum of intent with Turkey at the summit for Shah Deniz Phase II gas distribution and confirmed that the negotiations on transit are now de-linked from the negotiations on pricing for Shah Deniz Phase I gas. The President told the Secretary that he believes a transit deal with Turkey will require more volume, and so asked for USG support to persuade BP to provide more associated gas from the ACG oil field for export. (Note: this associated gas is often re-injected into wells to bolster oil production.) "The problem is," Aliyev said, "they have to provide the associated gas for free." If Azerbaijan got that gas, he said, it would enable a direct supply arrangement with Greece, which would set a valuable precedent) Azerbaijan directly supplying an EU member state. Aliyev also said that Azerbaijan is considering a "deep gas" extraction at ACG that could potentially be in production faster than Shah Deniz Phase II. This in addition to a hoped-for agreement by Turkmenistan to sell to Turkey would be a great boost to Nabucco's commercial potential, as well as to the Turkey-Greece-Italy pipeline.

18. (S) Nabucco's prospects, the President said, are much better now than in the immediate aftermath of the war in Georgia, but "prompt action" is needed. "Loss of time equals loss of position," the President continued. He believes that an agreement on the project is feasible before the question of volume is settled. Russia has been able to do this, Aliyev said, noting that Moscow is proceeding with South Stream without adequate reserves, and national parliaments are even ratifying South Stream agreements knowing this. Europe, Aliyev said, needs to "get serious" about its energy security, adding that "they can find a couple billion euro" to make Nabucco happen. The project is "more realistic than before," but the cooperative spirit needs to be restored. (Note: In general, Aliyev seemed less than fully satisfied with the relationship with Europe, adding that he does not believe the EU takes Azerbaijan seriously. He was particularly irked that the EU is considering a visa-free regime with Russia but not Azerbaijan. End Note.)

Bilateral/Security/Iraq-Afghanistan

19. (S) Asked by the Ambassador to evaluate bilateral relations with the United States, Aliyev replied positively.

He asked Secretary Bodman to please pass to the President that Azerbaijan is keenly interested in increased military cooperation and in purchasing U.S. defense systems. His comments were clearly motivated by the events in Georgia; regarding Russia, the President said "(y)ou can see what they do in Georgia. They can do it anywhere, and nothing happens to them."

¶10. (C) The President told the Secretary that Azerbaijan was increasing its presence in Afghanistan, and that he had decided to do this before the Iraqi government asked the GOAJ to withdraw its troops. The augmentation will include medical and civil affairs specialists; and, the President added, "(w)e will stay as long as we are needed." Aliyev noted with humor that when he decided to withdraw in accordance with the Iraqi government's wishes, media analysts in Azerbaijan imagined that he had either been pressured to do so by Russian President Medvedev or was doing so in anticipation of an election victory by Senator Obama.

¶11. (C) The President said he was very interested in a deeper security dialogue with the United States and highlighted some of the initiatives Azerbaijan has taken on its own to improve its ability to deal with a crisis, including building its naval command center and a crisis response center within the Ministry of Emergency Situations. A lot has been done with Azerbaijani resources, Aliyev said, but with U.S. support much more could be done. DAS Bryza then encouraged the President to agree to the MOU on the DOE/State-led Critical Energy Infrastructure Protection (CEIP) program.

Domestic Situation

¶12. (U) Aliyev commented on the domestic situation in Azerbaijan, answering the Secretary that despite the financial crisis, the GOAJ's social and infrastructure spending will continue apace. With about USD 20 billion in total reserves, including the State Oil Fund, the country's finances were still secure. Aliyev talked specifically about his government's emphasis on education, housing for IDPs and providing clean drinking water, and at length about SOCAR's ecological efforts on the Absheron Peninsula, where Baku is situated. He told the Secretary that SOCAR had named a vice-president for environmental affairs and had rehabilitated some 200 hectares of polluted land, with plans to clean up some 3,000.

¶13. (U) Regarding domestic politics, the President pointed out that the recent election was the first in Azerbaijan's independent history unmarred by any kind of violence. The other candidates in the election congratulated him afterwards, and he thanked them publicly for their good wishes. Aliyev spoke approvingly of the dignity with which Senator McCain conceded the election in the United States and said, "(t)his is the kind of political culture that makes the country strong. I hope to have this, and we are moving there."

¶14. (U) Aliyev asked the Secretary if he believed U.S. policy toward Azerbaijan would change significantly under an Obama Administration, to which the Secretary replied that he did not sense great differences between Republicans and Democrats on issues important to Azerbaijan. The United States' interests are clear, the Secretary concluded.

Comment

¶15. (C) Secretary Bodman's meeting with President Aliyev was exceptionally positive. An early trip to Ashgabat by President Aliyev will further confirm that Azerbaijan and Turkmenistan have turned a corner in their relationship, which historically has been distant. A long-term gas deal for Georgia is a positive sign and, in view of the financial losses it imposes on Azerbaijan, can be seen as an investment in medium-term stability for Georgia. President Aliyev was as clear as ever about his desire to deepen Azerbaijan's

military and security cooperation with the United States, the same message he offered to the Vice President and Deputy Secretary Negroponte in October.

[¶](#)16. (U) Secretary Bodman cleared this cable.

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